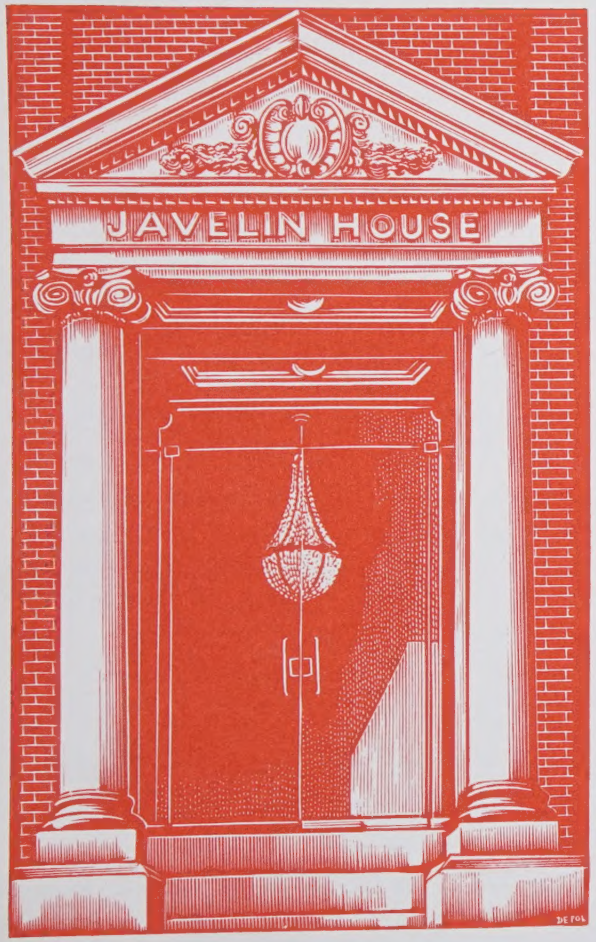


Canadian Javelin Limited

ANNUAL REPORT 1965

The President's Report to Shareholders

James F. McNamara

THE PAST YEAR has been a year of progress in several important fields for your Company. The Wabush Iron plant produced 2,521,430 long tons of concentrates and shipped from Pointe Noire 2,012,807 long tons of concentrates and pellets in the start-up period from its official opening on June 22, 1965 until the close of the year. In February when production was scheduled to reach full capacity, fire occurred in the concentrator stopping production for several weeks. However, the plant resumed operation much sooner than was originally estimated, partial production having been achieved within weeks and full capacity restored by the end of April. It is now believed production targets in this year will be met.

Your Company acquired from the Government of Newfoundland the controlling interest in the Newfoundland and Labrador Corporation Limited under agreement which contemplated that Jubilee Iron Corporation and the Newfoundland and Labrador Corporation Limited (NALCO) would be merged. Approval of the shareholders was obtained. However, difficulties were encountered in carrying out the intent of the agreements including distribution of the shares of the Newfoundland and Labrador Corporation Limited to the shareholders of Jubilee Iron Corporation.

After a review of the circumstances, the boards of directors of the various companies involved and the Government of Newfoundland have agreed that the terms of the original agreements should be modified. Such modification would permit the Newfoundland and Labrador Corporation Limited remaining a subsidiary of Canadian Javelin Limited. A further consideration dictating this change of program was the fact that Canadian Javelin Limited has been supplying funds to NALCO and Jubilee over the past two years and it was not feasible to continue. This policy involved a severe depletion of Canadian Javelin's working capital to the point where it is now seeking financing for its own working capital needs.

The Melville pulp and paper project feasibility and related studies have been completed. It has become necessary to re-define the corporate relationships in order to proceed with the project this year. The resolution of this question should enable your Company to proceed with the financing required in order that construction may begin this year.

Your Company, Canadian Javelin Limited, during the course of the year additionally acquired over 1,000,000 acres of new mineral concessions in Central Newfoundland that contain very interesting mineral prospects. Negotiations are currently proceeding with several well-known mining companies covering exploration and development of these properties under subleases, with royalties on any possible production payable to Canadian Javelin Limited.

The project of major importance to Canadian Javelin Limited is the Melville pulp and paper project. This project is now to be a part of Newfoundland and Labrador Corporation Limited. Several years of study have confirmed the economical feasibility of this project and further confirmed that the reserves of wood are sufficient to construct a mill capable of producing in excess of 350,000 tons of product per annum. The available wood supply is sufficient to provide for future expansion of the proposed pulp and paper complex to one of the largest in Canada.

The decision has been made to locate the mill at Stephenville, Newfoundland. The Harmon Air Force Base is now being closed by the United States Government with ownership reverting to Canada. The Federal Government and the Newfoundland Provincial Government are making this base available for industrial development. Your Company by locating on this base could obtain a substantial financial advantage in using existing dock facilities, housing, power, water and associated utilities. This could save your Company millions of dollars in capital expenditures. Stephenville is an ice-free port with rail facilities enabling year-round shipments to be made to domestic and foreign consumers.

During 1966, Canadian Javelin Limited obtained a 25% direct interest in off-shore petroleum rights granted by the Government of Newfoundland along the west coast of Newfoundland, petroleum rights acquired from the Reid, Newfoundland Company, petroleum rights granted by the Government of Newfoundland and on-shore oil concessions as well as participation in NALCO's holdings at Parson's Pond. These petroleum rights cover approximately 5,500,000 acres. The Newfoundland and Labrador Corporation Limited holds a 75% interest in these same rights.

In addition, in 1965, the Canadian Javelin Limited affiliate, the Jubilee Iron Corporation, obtained two large blocks of off-shore petroleum on the Grand Banks of Newfoundland where major oil companies are conducting off-shore drilling operations.

Javelin and NALCO during 1965 drilled a test well to the north of Parson's Pond to a depth of 4,300 feet. Drilling was suspended at this depth due to the loss of the bit and cable in this hole, and this well did not reach its original objective in the St. George formation, however, this test well intersected a number of potential oil-bearing zones. Preliminary samplings from this well indicated the presence of high quality paraffin base crude, AP1 gravity of 43.4°, with a very low sulphur and sediment content. The work of evaluating the potential of this well was delayed due to the late winter break-up. Production testing will commence before the end of May.

Independent consultants have advised the Company to sink a second well after further testing of this well and completion of a gravity meter survey of the acreage.

Your Company has acquired control of the Bison Petroleum and Minerals Limited of Regina, Saskatchewan. This company has important holdings in oil, potash and base metals in Western Canada, with oil and mining properties presently in production. However, one of its more important assets is its potash holdings which encompass a gross area of 300,000 acres of the Davidson Potash Basin in Saskatchewan, a major portion of which acreage is included in Government permits granted to Bison. Drilling of these properties has revealed sections of better than average potash ore in grade and thickness. Independent consultants have declared these properties to be economically feasible for development purposes with total potential reserves in excess of three billion tons.

In spite of the onerous financial burden which was a result of prior litigation and the consequent disruption of the Company's plans for development and on account of which the Company's present revenues are partially pledged to pay, and the non-consummation of the Jubilee-NALCO merger, the Company is stabilizing its operations. The future policy of your company is to place all exploration and development projects in the hands of affiliated companies so that they may be financed independently and separately from Canadian Javelin Limited. Thus, shareholders in Javelin can expect a larger participation in Javelin's royalty income than would otherwise be possible if new projects were financed by the use of these monies. In addition, this policy should assure Javelin shareholders the benefits to be derived from development of your Company's extensive natural resource holdings.

Respectfully submitted on behalf of the Board

J. F. McNamara

JAMES F. MCNAMARA *President*

May 31st, 1966.

JAVELIN HOUSE
Head Office of
Canadian Javelin Ltd.
St. John's,
Newfoundland
A wood engraving
by John DePol

Executive Officers

JAMES F. MCNAMARA
Chairman of the Board of Directors and President
LORNE A. PEARCE
Vice-President and Secretary
GORDON W. MCPHERSON
Vice-President, Sales
W. H. ROXBURGH
Vice-President, Engineering
HARRY A. ROBINSON
Treasurer

Executive Committee

JOHN C. DOYLE
JAMES F. MCNAMARA
HON. SENATOR SARTO FOURNIER
ROBERT MAJOR
LORNE A. PEARCE


James F. McNamara


John C. Doyle

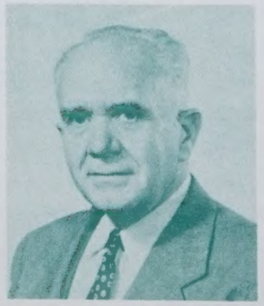

Sarto Fournier


Victor P. Geffine


H. K. Goodyear


A. R. Lundrigan


Robert Major


H. E. Orem


Lorne A. Pearce


W. H. Roxburgh

Subsidiary and Affiliated Companies

Inter-American Minerals Corporation
Jack Waite Mining Company
Javelin Pulp & Timber Limited
Javelin Realties Limited
Jubilee Iron Corporation
Javelin Petroleum Limited
Panamanian Minerals Inc.
Julian Iron Corporation
Newfoundland and Labrador Corporation Limited
Melville Chemical & Cellulose Ltd.
Simone Iron Corporation
The Javelin Corporation
Javelin Export Limited
Panama-Pacific Steamship Co.
Javelin International Corporation
Bison Petroleum & Minerals Limited
Mid-Canada Exploration Limited
Rottenstone Mining Limited

Directors

Affiliations of the Directors of Canadian Javelin Limited

JAMES F. MCNAMARA *Rumson, New Jersey*	President and Chairman of the Board Canadian Javelin Limited Metal Consultant Former Vice-President, International Nickel Co., Inc. Director, Lukens Steel Company Director, M.I.F. Corp.
JOHN C. DOYLE *Nassau, Bahamas*	Director
HON. SENATOR SARTO FOURNIER *Montreal, Quebec*	Member of the Senate of Canada Former Mayor of Montreal Member of the Canadian Parliamentary Committee to NATO
VICTOR P. GEFFINE *Palm Beach, Florida*	President, Jubilee Iron Corporation Former Vice-President, Cleveland Cliffs Iron Company Former President, Cliffs Power and Light Company
H. KENNETH GOODYEAR *Grand Falls, Newfoundland*	President, Goodyear Construction Company Director, North Star Cement Ltd. Director, Newfoundland Textile Ltd. Director, Ancros Welding & Mining Supplies Ltd.
ARTHUR R. LUNDRIGAN *Corner Brook, Newfoundland*	Executive Vice-President, William J. Lundrigan Ltd. & its Associated Companies Director, Bank of Montreal, Canada Director, Avalon Telephone Company Director, North Star Cement Ltd.
ROBERT-BENOIT MAJOR *Montreal, Quebec*	Administrator, The United Provinces Insurance Company Vice-President, Pigeon & Major Ltd. of Montreal Director, Walsh Quebec Construction Company Member, Advisory Board of Guaranty Trust Co. (Montreal)
VICE-ADMIRAL H. E. OREM (U.S.N. Ret.) *Summit, New Jersey*	Director of Research Stevens Institute of Technology Chairman of Board of Directors Valley Metallurgical Processing Co. Director, Norwalk Powder Metals Co. Consultant, U.S. Navy Oceanographic Office
LORNE A. PEARCE *Ottawa, Ontario*	Barrister & Solicitor, Province of Saskatchewan and British Columbia Secretary, Bison Petroleum & Minerals Limited Director, Mid Canada Exploration Ltd. Vice-President and General Manager Canadian Javelin Limited
WILLIAM H. ROXBURGH *Ottawa, Ontario*	Vice-President, Engineering Canadian Javelin Limited

Solicitors

NEWFOUNDLAND

Curtis, Dawe and Fagan
St. John's, Newfoundland

CANADA

Day, Wilson, Campbell & Martin
Toronto, Ontario

UNITED STATES

Steptoe & Johnson, Washington, D.C.

Auditors

Davis, Bishop & Company
Chartered Accountants,
Montreal, Quebec

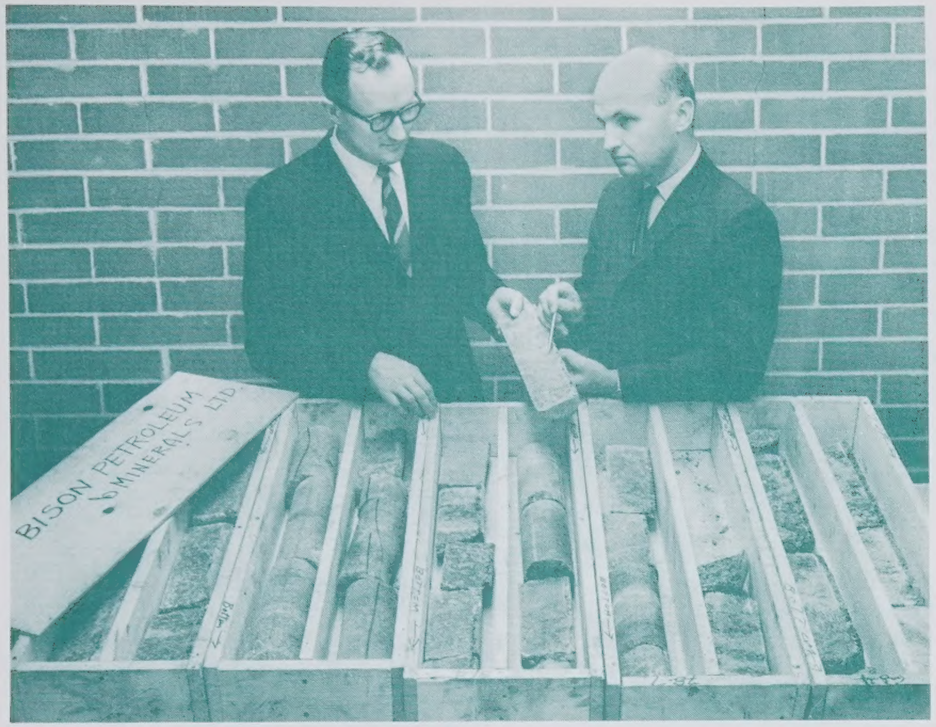
Transfer Agents and Registrars

CANADA

Eastern & Chartered Trust Company
St. John's, Newfoundland
Halifax, Nova Scotia
Montreal, Quebec
Toronto, Ontario

UNITED STATES

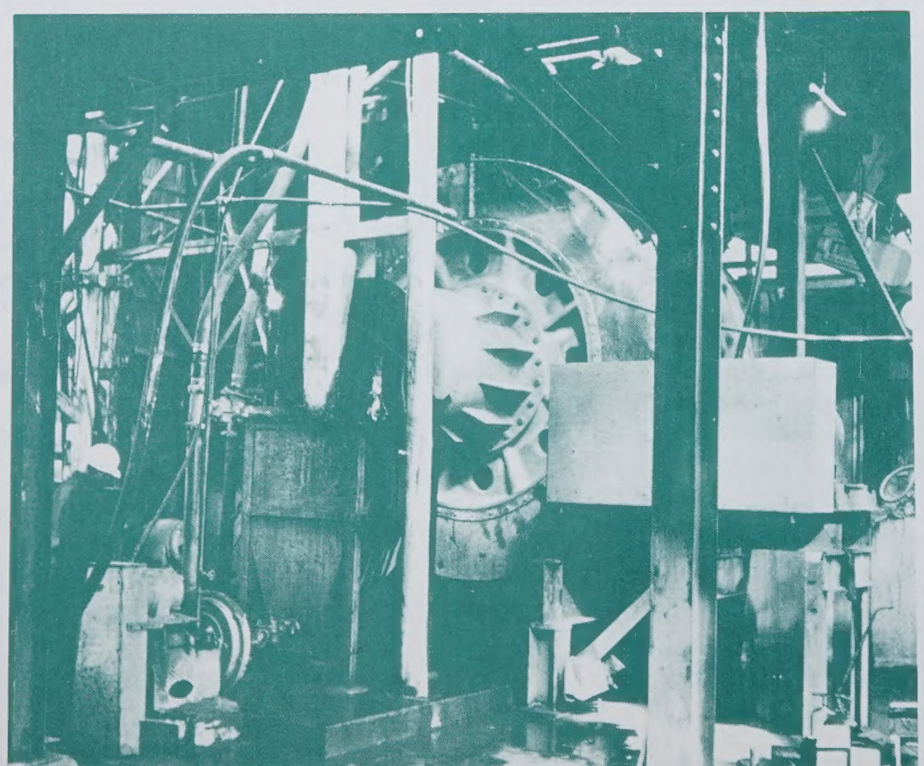
The Corporation Trust Company
Jersey City, New Jersey



Acquisition of The Bison Petroleum & Minerals, Ltd.

Potash, Oil and Base Metal Resources

(Above) LOOKING OVER the potash cores from the Craik test well are (l. to r.) J. Paul Criton, president, Bison Petroleum & Minerals Ltd., and David L. Surjik, consulting geologist. (Right) A VIEW of the grinding mill at the Rottenstone Lake mine where nickel, copper, platinum and palladium concentrates are produced.



Canadian Javelin made a major acquisition this year when it purchased the controlling interest in Bison Petroleum and Minerals, Ltd. The price was 248,842 shares of Canadian Javelin Ltd. stock. For this, Javelin received a 51.1% interest in Bison.

Located in Saskatchewan, Bison Petroleum has oil and base metal resources, including nickel, copper and zinc properties, as well as sodium sulphate and potash deposits. In addition to oil producing properties in Saskatchewan, it has potential oil properties in Manitoba, Ontario and the state of North Dakota.

The production from Bison's 59 gross wells in 1965 added up to 210,780 barrels. Spread over an area of 4,564 acres, Bison's producing oil wells are located in 12 separate oil fields throughout Saskatchewan. Although some of these wells are owned entirely by Bison, others are held in partnership with various other oil companies.

DRILLING A NEW WELL with a rotary rig in the Weyburn Field.

The 1965 exploration program of the Bison firm included the drilling of seven new wells in participation with other oil firms. Three of these wells are in the Weyburn field, two in the Midale field and two in the Handsworth field. All three fields are in Saskatchewan. Four of these are now oil producing wells.

The Rottenstone Lake Mine, controlled by Bison, was the first nickel property in production in Saskatchewan. The new mill concentrator on the property, which was placed in operation on Sept. 4, 1965, produces ore concentrates containing nickel, copper, platinum and palladium. Mid Can Exploration Limited, of which Bison owns 22%, controls 45% of Rottenstone Mining Limited while Bison has the remaining 55%.

Further exploration is planned for the Rottenstone property. This exploratory program will be carried out by Canadian Javelin's experienced engineering staff which originally developed the now well known Wabush Iron Ore properties.

Bison's major asset is its potash holdings in Saskatchewan's world famous potash area. The firm owns three potash permits encompassing approximately 300,000 acres in the Davidson area of south central Saskatchewan.

A deep drilling program by Bison in this potash area has shown the existence of substantial, commercial-grade potash ore reserves. In conjunction with this drilling program, independent consultants have pointed out that the drilling cores show better than average grade and thickness of potash. In their opinion, the potash reserves amount to more than three billion tons. These consultants agree that the recovery of this potash is possible by solution mining methods.

Canadian Javelin and Bison have been holding joint discussions with United States fertilizer firms with a view toward bringing these potash properties into production.

Statement 1

Consolidated Balance Sheet

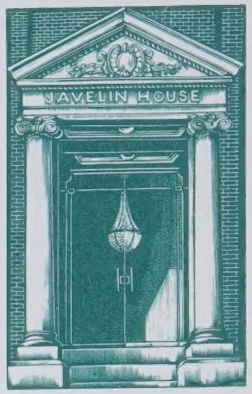
as at December 31, 1965

Assets

Current Assets			
Cash on hand and in banks		$ 20,005	
Royalties receivable (Note A below)		450,250	
Receivable under Javelin-Wabush Iron Contract (Note 4)		201,281	
Other receivables, deposits, prepaid expenses and inventories		27,454	$ 698,990
Non-Current Assets			
Amount receivable in future years under Javelin-Wabush Iron Contract (Note 4) (see Contra)		28,028,253	
Notes receivable — litigation settlement (Note 17)		2,600,000	
Advances associated companies —			
Jubilee Iron Corporation (Note 9)	$ 563,490		
Newfoundland and Labrador Corporation, Limited (Note 7)	319,028		
Jack Waite Mining Company Less Reserve (Note 10)	1		
Other	19,283	901,802	
Loans and advances — employees and others		24,622	
Chattel mortgage receivable (Note 14h)		158,726	31,713,403
Investments			
Newfoundland and Labrador Corporation Limited (Note 7)		2,314,585	
Knoll Lake Minerals Limited (Note 8)		4,258	
Jubilee Iron Corporation (Note 9)		1,499,966	
Jack Waite Mining Company — Less Reserve (Note 10)		1	
Bison Petroleum & Minerals Ltd. (Note 14a)		41,685	
Limited Partnerships — Chile — Less Reserve (Note 11)		1	3,860,496
Fixed Assets — at cost			
Property and equipment		351,524	
Less: accumulated depreciation		143,979	207,545
Mining Claims, Rights, Leases and Concessions (Note 13)			368,847
Accumulated Unrecovered Promotional, Exploratory and Development Expenses — Statement 3 (Note 2b, c, d, e)			18,647,580
Organization and Underwriting Expenses			1,322,555
			$56,819,416

Note A — Subject to deduction of $60,000 U.S. under orders of payment (Notes 14c and 17)

Canadian Javelin Limited and Subsidiary Companies



Liabilities

Shareholders' Equity

Current Liabilities		
Accounts payable and accrued liabilities	$ 1,008,507	
Current liabilities arising from litigation settlement (Note 17)	374,812	
Royalties and land rents payable (Notes 3a and 14d)	647,269	
Account payable re: Memorial University of Newfoundland	250,380	$ 2,280,968
		698,990
		-1581 978
Other Liabilities		
Liabilities arising from litigation settlement less currently payable (Note 17)	870,000	
Bank Loan (payable on demand on or after June 30, 1967)	349,423	
Account payable — director	163,908	
Mortgage payable less current maturity	44,211	
Other deferred liabilities	155,034	1,582,576
Deferred Income		
Advance royalties and other advances applicable against future earned royalties (Note 3b)		2,531,215
Deferred Credit		
Arising from Javelin-Wabush Iron Contract, (Note 4) (See Contra)		28,028,253
Authorized Capital		
12,000,000 shares of no par value (consideration not to exceed $100,000,000)		
Issued and Fully Paid Capital		
5,272,508 shares of no par value (Note 12)	24,647,643	
Less: Deficit Account — Statement 2	(2,251,239)	22,396,404
Contingent Liabilities and Commitments (Note 14)		
		$56,819,416

Approved on behalf of the Board of Directors

JAMES F. MCNAMARA, *Director*

JOHN C. DOYLE, *Director*

The accompanying notes are an integral part of this statement.

Statement 2

Consolidated Statement of Deficit Account

for the year ended December 31, 1965

Balance (Deficit), December 31, 1964		($ 3,687,979)
Add: Provision for possible loss on investment in Jack Waite Mining Company (Note 10)		(490,131)
Acquisition and field costs of claims abandoned in 1965 (Note 13)		(85,990)
		(4,264,100)
Deduct: Canadian federal income tax settlement transferred to accumulated, unrecovered promotional, exploratory and development expenses (Note 16c)	$ 300,000	
Adjustment to carrying costs of Integrity Coal Company Inc.	1,500	
Profit on disposal of shares of Jubilee Iron Corporation resulting from the revaluation of shares held at December 31, 1965, at original consolidated cost (Note 9)	1,711,361	2,012,861
Balance (Deficit), December 31, 1965		($ 2,251,239)

The accompanying notes are an integral part of this statement.

Statement 3

Consolidated Statement of Accumulated Unrecovered Promotional, Exploratory and Development Expenses

for the year ended December 31, 1965

Exploratory and Development Expenses:			
Total to December 31, 1964		$4,941,892	
Less: Adjustment prior years		(1,405)	
		4,940,487	
Expenses — 1965			
Salaries — executive	$ 20,000		
Salaries — other	82,262		
Supplies and rentals	5,454		
Travelling expenses	13,665		
Engineering fees, surveying and assaying costs	2,822		
Diamond drilling	13,187		
Printing, stationery and office expenses	4,679		
Insurance	8,093		
Taxes and licenses	306		
Miscellaneous	3,614		
Employee benefits	4,925		
Depreciation	6,545		
Camp and cookery expenses	1,550		
	167,102		
(Deduct): Share of expenses charged to associated companies	(85,679)	81,423	
		5,021,910	
(Deduct): Expenses attributable to claims abandoned in 1965, transferred to (Deficit) Account (Note 13)		(37,685)	
Total to December 31, 1965			4,984,225
Total Forward			$ 4,984,225

Statement 3

Total Carried Forward		$ 4,984,225
Aircraft Operations:		
Total to December 31, 1964	$2,874,024	
(Deduct): Excess of selling price over depreciated book value of aircraft (Note 14h)	(135,731)	
	2,738,293	
Expenses — 1965		
Equipment repairs and maintenance	76,090	
Gasoline and lubricants	55,633	
Salaries and wages	28,400	
Insurance	11,734	
Hangar and port expenses	5,540	
Travel expenses	13,846	
Miscellaneous	2,940	
Aircraft rentals	19,914	
	214,097	
(Deduct): Share of expenses charged to associated companies	(137,447)	
	76,650	
Total to December 31, 1965		2,814,943
Cost of Railway and Townsite Construction Less: Amounts recovered (Note 4b)		
Balance as at December 31, 1964	1,706,500	
(Deduct): Amount receivable under Javelin-Wabush Iron Contract	(201,281)	
Balance as at December 31, 1965		1,505,219
Total Forward		$ 9,304,387

Statement 3

Consolidated Statement of Accumulated Unrecovered Promotional, Exploratory and Development Expenses

for the year ended December 31, 1965

Total Carried Forward		$ 9,304,387
Administrative Expenses:		
Total to December 31, 1964 . . .	$7,920,803	
Expenses pertaining to prior years —		
Add: Canadian federal income tax assessments (Note 16c)	346,041	
Sundry	5,083	
	8,271,927	
Expenses — 1965		
Legal fees	201,757	
Travelling and automobile	153,655	
Salaries — executive	35,350	
Management fees	77,705	
Consultants' fees	15,569	
Salaries — staff	41,067	
Printing, stationery and office expenses	7,621	
Rent and light	97,004	
Taxes — other than income	5,587	
Telephone, telegraph and postage	77,400	
Insurance, exchange and financial expenses	155,880	
Employee benefits, social security and unemployment insurance	6,416	
Audit, accounting and miscellaneous	77,830	
Directors' and executive committee fees	12,600	
Registrars' and transfer agents' fees and expenses	27,109	
Depreciation	16,925	
Building maintenance	5,263	
Finder's fees, re: Japanese negotiations	17,500	
	1,032,238	
(Deduct): Share of expenses charged to associated companies	(392,883)	
	639,355	
Total to December 31, 1965		8,911,282
Total Forward		$18,215,669

Statement 3

Total Carried Forward		$18,215,669
Promotional, Public Relations and Reports to Shareholders:		
Total to December 31, 1964	$1,570,597	
Expenses — 1965		
Advertising	1,038	
Reports to shareholders	37,947	
Public relations	24,226	
	63,211	
Total to December 31, 1965		1,633,808
		19,849,477
(Less): Royalties earned (Notes 3b and 11)		
Total to December 31, 1964	(261,083)	
Earned — 1965		
Chilean properties (Note 11)	(43,957)	
Wabush properties (Net) (Note 3b)	(896,857)	
	(940,814)	
Total to December 31, 1965		(1,201,897)
Total Accumulated Unrecovered Promotional, Exploratory and Development Expenses to December 31, 1965		$18,647,580

The accompanying notes are an integral part of this statement.

AUDITORS' REPORT to the Shareholders of Canadian Javelin Limited

We have examined the accompanying consolidated balance sheet, statement of deficit account and statement of unrecovered promotional, exploratory and development expenses of Canadian Javelin Limited and subsidiary companies, Inter-American Minerals Corporation (a Delaware Corporation), Simone Iron Corporation (a company incorporated under the provisions of the Quebec Mining Companies Act), Julian Iron Corporation (a Delaware Corporation), Javelin Realties Limited (a Newfoundland Company), The Javelin Corporation (a Delaware Corporation), and Javelin Export Limited (a Bahamas Company) and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet, statement of deficit account and statement of unrecovered promotional, exploratory and development expenses, together with the explanatory notes thereto, are properly drawn up in conformity with accepted accounting principles applied on a basis consistent with that of the the preceding year (with the exception of the matter discussed in the next paragraph), so as to exhibit a true and correct view of the combined financial position of Canadian Javelin Limited and the abovementioned subsidiaries as at December 31, 1965, and their combined operations for the year ended on that date, according to the best of our information, and the explanations given to us and as shown by the financial records of the companies concerned.

The accompanying balance sheet includes a non-current receivable in the amount of $28,028,253 which in previous years had been treated as a contingent asset arising under the terms and conditions of the Javelin-Wabush Iron Contract. We have some reservations regarding this change in accounting treatment mainly because of the cancellation provision in the agreement. Company management however contends that in view of the very substantial investment in the Wabush property by the lessee and the fact that the mine is now in commercial production, cancellation of the lease is, for practical purposes, a remote possibility and that the amount involved is therefore properly recorded in the accounts as receivable. Reference should be made to Note 4 to the financial statements for further details regarding this matter.

Pursuant to Section 121 of the Canada Corporations Act, we report that the accounts of the wholly-owned subsidiaries, Javelin Pulp and Timber Limited (a company formed under the Companies Act of Canada), Javelin Petroleum Limited (a Newfoundland company), Panama-Pacific Steamship Co. (a Panama corporation) Javelin International Corporation (a Panama corporation) Panamanian Minerals Inc. (a Delaware corporation) and Jupiter Minerals Corporation (a Panama corporation) have not been consolidated in the accompanying financial statements since none of these companies have, as yet, carried on financial operations.

Montreal, Quebec,
May 9, 1966.

DAVIS, BISHOP & COMPANY,
Chartered Accountants.

Notes to Financial Statements

December 31, 1965

Index of Notes to Financial Statements

(1) Principles of consolidation:

The accompanying financial statements include the accounts of Canadian Javelin Limited, Inter-American Minerals Corporation, Simone Iron Corporation, Julian Iron Corporation, Javelin Realties Limited and Javelin Export Limited. Intercompany investments and indebtedness, intercompany cash transactions, intercompany exchange of shares and intercompany profits have been eliminated in consolidation.

The accompanying financial statements are basically prepared in Canadian dollars. Current assets and liabilities in United States dollars have been converted to Canadian dollars at the rate of exchange on December 31, 1965, which has not varied substantially since that date. Other assets and expenses and revenues are expressed on the basis that the United States and Canadian dollars were at par at the time of the transaction, any differential in exchange rate having been charged or credited to financial expenses upon settlement.

(2) Accounting policies with respect to mining claims, rights and options, unrecovered promotional, exploratory and development costs, royalties and depreciation:

(a) Mining claims, rights and options

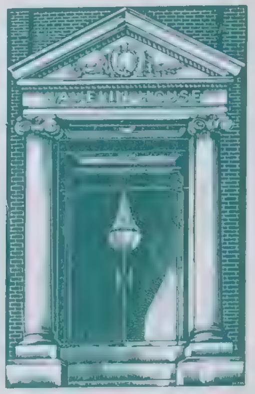
Reference is made to Note 13. The costs of claims, rights and options are deferred until such time as the properties involved are placed in production, sold or abandoned. If placed in production, the costs will be amortized by charges to income on a unit-of-production method on the basis of estimated proven ore reserves at the date production commences. If sold, the costs will be applied in determining gain or loss on the sale. The costs of properties abandoned will be charged off to income or deficit account as the case may be.

(b) Exploratory and development costs

(c) Aircraft operating expenses

(d) Administrative expenses

(e) Promotional and public relations expenses and reports to shareholders



The above expenses will be deferred until production in reasonable commercial quantities is reached, and thereafter will be amortized by charges to income. In the case of Canadian Javelin Limited, the aforementioned accumulated expenses will be reduced to the extent of net royalties earned and to the extent of any dividends received from NALCO and Knoll Lake Minerals Limited until production in reasonable commercial quantities is reached. Thereafter, such costs will be amortized against royalty and other revenues, as rapidly as possible, for accounting purposes. It is not anticipated that all such costs will be allowable for taxation purposes.

Subsidiary companies will follow a similar general policy of amortizing such deferred costs against revenues from their respective properties, or, if such properties are abandoned or are not commercially productive, costs will be charged off to income immediately upon determination that further development will not be undertaken.

(f) Costs of Railway and Townsite construction, less amounts recovered

Reference is made to Note 4(b) concerning the accounting policy to be followed with respect to such costs.

(g) Commissions and underwriting expenses on capital shares

(h) Organization expenses

It is proposed to write off the above expenses within five years after the respective companies reach production in reasonable commercial quantities.

(i) Royalties received and receivable and paid and payable

See comment under subsections (b), (c), (d) and (e) of this note.

(j) Dividends from Knoll Lake Minerals Limited

See comment under subsections (b), (c), (d) and (e) of this note.

(k) Depreciation

Provision has been made on a reducing balance basis calculated from the year of purchase as follows:

Office and engineering equipment — 20% per annum

Aircraft — 40% per annum

Building — 5% per annum

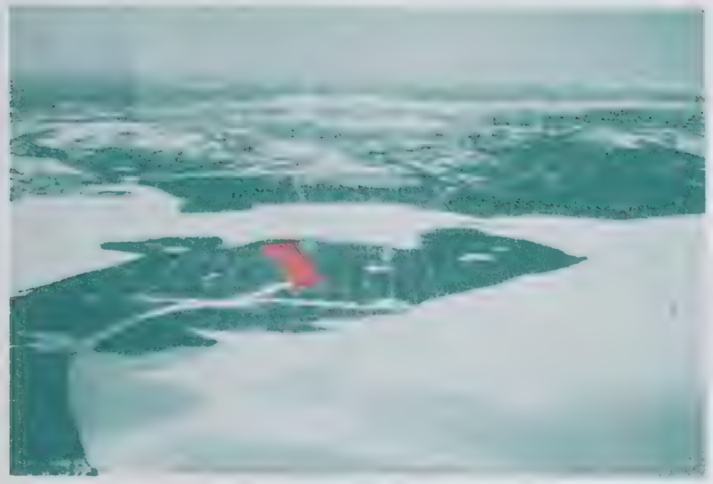
Motor Vehicles — 30% per annum

(3) Royalties, and commitments relating thereto:

(a) Royalties paid and payable to NALCO and Knoll Lake Minerals Limited

By agreement dated March 11, 1954, as amended (herein called the "North Concession Agreement"), the Company acquired from Newfoundland and Labrador Corporation (NALCO) the exclusive right for a period which expires January 1, 1969 to explore, develop, produce, extract and remove all minerals in and from an area of 2,300 square miles in Labrador except such portions of the said area as were then held by other persons under existing valid mining rights.

Pursuant to the terms of the aforesaid agreement, the Company requested and received from NALCO a mining lease dated May 26, 1956, as amended June 28, 1957 (herein called the "Javelin Mining Lease") in which NALCO demised to the Company about 5.6 square miles (herein called the "Wabush Deposit"), in Labrador between Little Wabush Lake and Long Lake for a term of 99 years from May 26, 1956, at a royalty to NALCO of 3% of the Seven Islands Price for each ton of iron ore with a maximum royalty of 32¢ per ton. Seven Islands Price means the price determined by multiplying 17¢ by each unit of iron, natural analysis, contained in each ton of the iron ore shipped from the leased premises. However, in order to provide for an increase in the Seven Islands Price in the event of an increase in the market price of iron ore, the agreement provides that if the published Lake Erie Price at Cleveland,



PART OF THE ORE BODY is uncovered on the Julian iron ore property. Ore body is printed in brown. The 22-mile road built by Javelin from Wabush to Julian is in the left foreground.

Ohio, of Old Range Non-Bessemer ore analyzing 51.50% iron, natural analysis, exceeds $11.70 United States funds, per ton, then the said 17¢ above shall be increased in the same proportion as the amount of any such excess bears to $11.70.

On May 15, 1962, the Government of Newfoundland granted mining leases covering the Knoll Lake Area and the Wabush Mountain Area to NALCO which granted similar leases to Canadian Javelin Limited which, in turn, granted a lease known as the "Knoll Lake Mining Lease" covering both areas to Wabush Iron Co., Limited. Royalties payable to NALCO by Canadian Javelin Limited under the aforementioned leases are on the same basis as those described in the preceding paragraph.

In July 1964, conveyances of the aforementioned leases were made from NALCO to Knoll Lake Minerals Limited (Note 8).

See Note 6 for details of Julienne Mining Lease also granted under the terms of the North Concession Agreement.

Accumulated royalties paid and payable by the Company under the aforementioned leases totalled $675,725 to December 31, 1965.

(b) Royalties receivable from Wabush Leases

The Company, as lessor, has leased the Wabush Deposit and the Knoll Lake and Wabush Mountain Areas to Wabush Iron Co., Limited. The leases are for terms expiring May 20, 2055, and May 13, 2061, respectively.

Under the terms of the leases, the Company is entitled to receive a royalty of 7% of the Seven Islands Price for each ton of iron ore shipped from the leased premises but not less than 75¢ per ton except in the case of the Knoll Lake Lease where such basis only applies to ore extracted by open pit method and a reduction of 25¢ per ton is allowed for ore extracted by any other means. The Seven Islands Price is defined in the same way in these leases as in the Javelin Mining Lease and the North Concession Agreement, except that the figure of 17¢ per unit is used only for the first 64 units of iron and then it is 10¢ per unit over 64 units. Beginning for each quarter during which the lease remains in effect after January 1, 1960, there will be payable a minimum royalty equal to one quarter of an amount calculated at the rate of 30¢ Canadian Funds per gross ton on the following tonnages:

For the Years	Per Year
1965-1966 inclusive	6,000,000 tons
1967	8,000,000 tons
1968	8,333,000 tons
1969-1972 inclusive	10,333,000 tons
1973 and each year thereafter	10,833,000 tons

In addition to the foregoing, the Company is to receive a minimum royalty of $1,000 per annum commencing in 1961 with respect to the Knoll Lake Lease.

Minimum royalties are applicable against royalties earned on shipments of ore. As of December 31, 1965 the position was as follows:

Accumulated minimum royalties received or receivable	$4,055,000
Other advances	92,320
	4,147,320
Less: Accumulated earned royalties	1,616,105
Unabsorbed Advance royalties	$2,531,215
Accumulated earned royalties	1,616,105
Less: Accumulated royalties paid or payable	675,725
Net royalties Earned and applied in reduction of accumulated expenses	$ 940,380

The lessee has the right to terminate the lease at any time on 60 days' notice.

The lessee has agreed to pay to the Government of Newfoundland 22 cents per ton of iron ore shipped from the leased premises in lieu of any taxes that would otherwise be payable by the lessee under the Mining Tax Act of Newfoundland. As stated in subsection (a) of this note the definition of Seven Islands Price contains within it an escalation provision. The Company has agreed that in the event of such escalation, the Company (and not the lessee) will pay to the Government of Newfoundland an equivalent percentage of the 22 cents per ton payable by the lessee.

(4) Javelin — Wabush Iron Contract:

In addition to royalties described in Note 3(b) the Company has received or will receive certain monies under the terms of agreements with Wabush Iron Co., Limited.

(a) Amount receivable $28,028,253.

This amount consists of the following:

Amount due from the sale of 10% of the capital stock of Wabush Lake Railway Company Limited and 10% of the capital stock of Wabush Iron Co., Limited	$25,000,000
Net balance of settlement of sums due to the Company for various outlays and reimbursement for advances	3,235,257
	28,235,257
Less: Received on account at the rate of 10¢ per ton of iron ore products shipped	207,004
Balance	$28,028,253

This balance will be received as and when iron ore is shipped from the Wabush leased premises at the rate of 10¢ per ton of iron ore products (as defined in the agreements concerned) but not less than $275,000 per year beginning January 25, 1967. If the Wabush Deposit lease is cancelled by Wabush Iron, as it may do on 60 days' notice, no further payments need to be made, but the mining lease must be surrendered to Canadian Javelin Limited. If Wabush Iron defaults in making the payment of any instalment when due, and which shall remain unpaid for sixty days, it must promptly surrender to Canadian Javelin Limited not only the mining lease but also the title to and possession of all its buildings, plant and machinery on the leased premises. The 10¢ per ton figure is subject to increases based on the market price of iron ore. A determination has not been made as to whether the deferred credit arising from this asset is subject to corporation income tax or not.

(b) The Company has received in cash $4,577,671 under the terms of the aforesaid agreements relating to reimbursement of expenditures, the sale of fixed assets and the sale of 90% of the capital stock of Wabush Lake Railway Company Limited. This amount together with $207,004 received under the "10¢ per ton formula" described in (a) has been applied against total costs of $6,289,895 with respect to Wabush Lake Railway Company, Limited and construction and related facilities which were transferred to Wabush Iron Co., Limited, and the balance of $1,505,220 has been deferred. It is proposed that such further amounts as may be received under the "10¢ per ton formula" will be applied first to absorb such balance of unrecovered costs.

(5) Development of properties under the Wabush Leases:

The properties are being developed by a consortium of steel companies organized as an unincorporated joint venture known as "Wabush Mines". Participants are the following:

The Youngstown Sheet and Tube Company — (U.S.A.)

FIVE OF THE SIX autogenous grinding mills in the milling section in the Wabush plant. These mills are the largest in all Canada.

The Steel Company of Canada Limited — (Canada)

Interlake Iron Corporation — (U.S.A.)

Inland Steel Company — (U.S.A.)

Dominion Foundries and Steel Limited — (Canada)

Societa Finanziari Siderurgica Finisider per Azioni — (Italy)

Pickands, Mather & Co. — (U.S.A.)

Mannesmann Aktiengesellschaft — (Germany)

Hoesch Aktiengesellschaft — (Germany)

Pittsburgh Steel Company — (U.S.A.)

Wabush Iron Co., Limited is also a joint venturer representing some of the interests of some of the aforementioned companies.

Pickands, Mather & Co. is managing the project as agent for the joint venturers, both in its construction and operating phases.

The overall project consists of mining and processing installations for over 5 million tons of production annually, plus complete housing and maintenance and service facilities at Wabush Lake. Dock and ore loading storage installations with additional service facilities are at Pointe Noire on the south shore of Sept Iles Bay, Quebec, together with an iron ore pelletizing plant. Transportation is provided by spur lines which are part of the project and which connect both Wabush and Pointe Noire to the Quebec North Shore and Labrador Railway. Hydro electric power is supplied from a source jointly developed with others.

The Company is informed that the investment in the foregoing overall project is in excess of $285 million to date.

The mine and concentrating plant at Wabush Lake were officially opened on June 22, 1965. The pelletizing plant at Pointe Noire was officially opened in July 1965. On February 7, 1966, a fire at the concentrating plant seriously disrupted production. On April 27, 1966, it was announced that full production had been resumed.

2,521,430 tons of concentrates averaging 65.968% iron were produced and 2,012,807 tons of concentrates and pellets were shipped in 1965.

(6) Julienne Mining Lease:

The Julienne Lake Area of Labrador was explored by the Company under the rights granted by the North Concession Agreement. Pursuant to such agreement, the Company has requested and received a mining lease (herein called the "Julienne Mining Lease") by which NALCO demised the Julienne Lake Area of 1.29 square miles to the Company for a term of 98 years at a royalty to NALCO of 3% of the Seven Islands Price for each ton of iron ore with a maximum royalty of 32 cents per ton. The Company, by statutory agreement with the Government of Newfoundland, as lessee of the mine was to pay to the Government 22 cents per ton of iron ore shipped from the Julienne Lake Area in lieu of mining taxes, as well as any escalation on the 22 cents as described previously in the Wabush Deposit leases. Under the terms of an agreement dated December 11, 1964, between the Government of Newfoundland, NALCO and the Company, it was agreed that upon implementation of the said agreement the aforementioned 22 cents per ton of iron ore shipped payable to the Government in lieu of mining taxes would be increased to 32 cents per ton.

Development costs pertaining to this property have been charged to a wholly-owned subsidiary, Julian Iron Corporation, a Delaware corporation. The lease however has not yet been transferred by the Company to the aforesaid subsidiary.

(7) Investment in Newfoundland and Labrador Corporation (NALCO):

As of December 31, 1964, the Company held 425,784 shares of NALCO. On or about April 29, 1965, a further 624,013 shares were acquired from

the Government of Newfoundland in exchange for the issue of 80,000 shares of the Company's capital stock and the transfer of 200,000 shares of the Company's holdings of Jubilee Iron Corporation. An additional 500 shares were transferred to the Company at no cost. At the conclusion of the foregoing transactions, the Company held 1,050,297 shares or 85.4% of the 1,230,172 shares of NALCO then issued and outstanding.

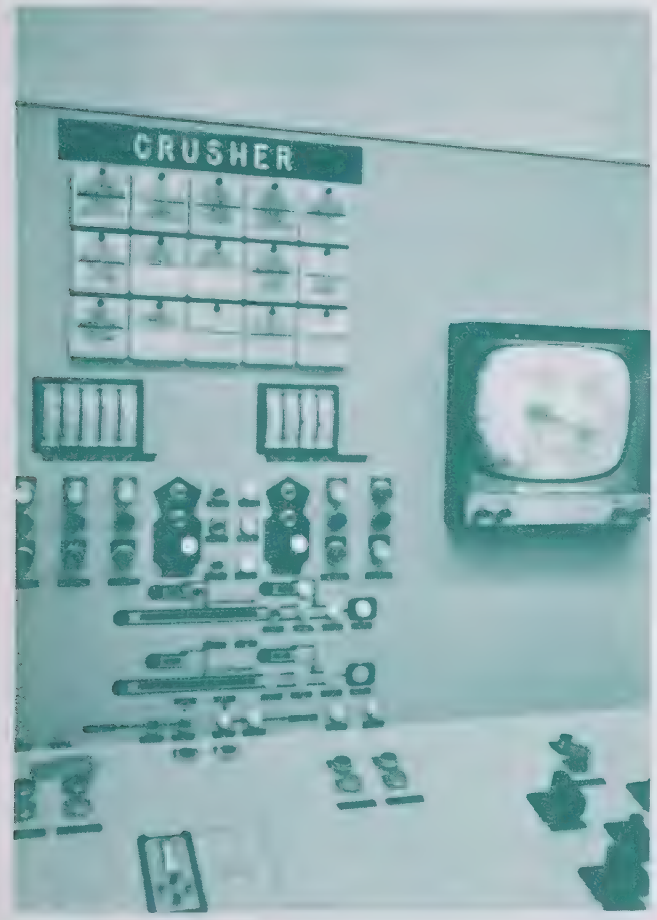
Subsequently, NALCO obtained permission for an increase in its authorized capital stock from 5,000,000 to 10,000,000 shares of no par value and on November 29, 1965, issued 4,436,200 shares to Jubilee Iron Corporation which are held by Eastern & Chartered Trust Company pending further instructions. Such shares were issued in return for the transfer to NALCO of the net assets of Jubilee Iron which were effectively transferred by an agreement between the two companies dated December 29, 1965. The foregoing transactions were approved at meetings of the shareholders of both NALCO and Jubilee Iron on the basis that Jubilee Iron would distribute the aforementioned NALCO shares to its shareholders share for share and then would seek permission to surrender its charter. Permission has been sought from the regulatory authorities concerned for registration and listing of NALCO shares. Permission has not thus far been granted. Under the circumstances, the Boards of Directors of both Jubilee Iron and NALCO have authorized their managements to make alternative arrangements.

The present position is that the Company owns directly 1,050,297 shares or 18.5% of 5,666,372 issued and outstanding shares of NALCO and through Jubilee Iron Corporation has an indirect interest in a further 903,909 shares or 16%. As a result the accounts of NALCO have not been included in the consolidation at December 31, 1965. In addition, NALCO was indebted to the Company in the amount of $319,028, representing advances to and on behalf of NALCO together with charges for engineering and administrative services and use of aircraft. Assets of NALCO consisted principally of exploration and other rights together with unrecovered exploratory and development expenses which have been deferred for amortization against future income from commercial operations under leases which have or may be granted and from mining and other operations which may be undertaken. The collectibility of the aforementioned inter-company account and the value of the Company's holdings of shares of NALCO will depend upon the success of future financing and operations of the latter Company.

(8) Investment in Knoll Lake Minerals Limited:

The iron ore mine of Wabush Mines is in the Province of Newfoundland, but the docks and shipping facilities are at Pointe Noire in the Province of Quebec. When it was decided to build a pellet plant for the pelletizing of the concentrate from Wabush Mines, economic studies indicated the advisability of building the pellet plant at Pointe Noire in the Province of Quebec. However, the Province of Newfoundland believed that the pellet plant, as ancillary to the mine, ought to be built in the Province of Newfoundland. After lengthy negotiations, construction was undertaken in Quebec and the Wabush Mines companies agreed to transfer their shares of NALCO to the Province of Newfoundland without compensation after NALCO had conveyed to a new corporation, to be owned by the stockholders of NALCO in NALCO stock proportions, the mineral rights and leases held by NALCO in the so-called Wabush Lake Area and generally referred to as the Wabush Lake-Wabush Mountain and Knoll Lake Leases. To accomplish this purpose, a new company, Knoll Lake Minerals Limited (Knoll Lake), was incorporated under the Companies Act of Canada with the same number of issued shares as NALCO. The aforementioned conveyances of mineral rights and leases were effected followed by the transfer of the Joint Venturers and Participants in the Wabush Mines Project shares in NALCO to the Government of Newfoundland in July 1964.

Knoll Lake Minerals Limited issued 1,080,172 no par value shares at one cent per share on or about April 1, 1964. The Company received 425,784 shares or 39.4% of the total shares issued which have been recorded in its accounts at the issue price of $4,258.



THE OPERATION OF ONE of the two crushers is controlled from this electronic panel located in the control center in the Wabush plant. Note the TV screen that monitors the ore crusher.

The mineral rights and leases generally referred to as the Wabush Lake and Wabush Mountain and Knoll Lake Leases formerly held by NALCO (Note 3(a)) are now held by Knoll Lake which will thus receive the 32 cents per ton royalty therefrom which would otherwise have been income of NALCO.

By letter agreement dated June 30, 1965, between the Joint Venturers and Participants in the Wabush Mines Project who own 624,013 shares and Canadian Javelin Limited which owns 425,784 shares of Knoll Lake Minerals Limited the following was agreed —

(1) that so long as Canadian Javelin Limited is the registered owner of at least 39% of the issued and outstanding shares in the capital stock of Knoll Lake Minerals Limited, the Joint Venturers and Participants in the Wabush Mines Project at each Annual Meeting of shareholders of Knoll Lake Minerals Limited, will vote the shares held by them to elect one nominee of Canadian Javelin Limited to the Board of Directors of Knoll Lake Minerals Limited.

(2) that the Directors of Knoll Lake Minerals Limited shall not issue stock so as to dilute the holdings of Canadian Javelin Limited and in furtherance thereof, it has been mutually agreed neither Javelin nor Wabush will vote any of the shares of Knoll Lake Minerals Limited held by either of them in favor of, nor will any Director of Knoll Lake Minerals nominated by either of them vote in favor of, the issuance of any additional shares in excess of those now outstanding (1,080,172) except upon the terms that the then existing shareholders shall have the prior right to subscribe for and take such additional shares in proportion to their holdings, and then only if the issuance thereof shall be appropriate for the reasonable business purposes of the Company and shall be upon such reasonable terms and provisions as may be consistent therewith and

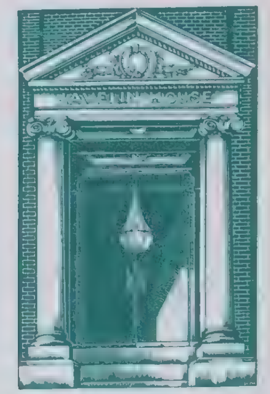
(3) that Javelin and Wabush will require Knoll Lake Minerals Limited, unless it shall be unlawful for it to do so, to declare and pay as dividends at the end of each calendar year the amount of royalties received by that company in that year under its leases on the so-called Wabush property after (a) deducting accruals for reimbursement of actual operating and administrative expenses of such company in such year and in prior years to the extent that such actual expenses are not theretofore reimbursed, provided that the deductions for such expenses for any calendar year shall not exceed the amount of $100,000, and after (b) deducting from such amount adequate reserves for income and profits taxes properly allocable to the receipt of such royalties.

As of December 31, 1965, the principal asset of Knoll Lake consisted of royalties and rents receivable from Canadian Javelin in the amount of $647,269. See Note 14(d) for the status of the royalties involved.

(9) Investment in Jubilee Iron Corporation:

Transfers of the company's holdings of shares in Jubilee Iron Corporation for the year ended December 31, 1965, are summarized as follows:

	Shares	Consideration
Transferred in settlement of liabilities	12,500	$ 24,700
Sold for cash and proceeds applied against liabilities ($250,000 against liability arising from pledge to the Memorial University of Newfoundland)	101,000	252,912
Sold for cash for the account of the Company	68,800	122,340
Transferred to the Government of Newfoundland in part payment for shares of Newfoundland and Labrador Corporation Limited	200,000	550,000
	382,300	$ 949,952



The position with respect to this investment at December 31, 1965, was as follows:

	Shares
Held by Eastern & Chartered Trust Company under the terms of an escrow agreement	899,993
Uncommitted	3,916
	903,909

The foregoing represented a 20.4% interest in Jubilee Iron Corporation at December 31, 1965.

In accordance with transactions approved by shareholders at meetings of Jubilee Iron and Newfoundland and Labrador Corporation (NALCO) held during the year, NALCO has issued 4,436,200 shares of its capital stock to Jubilee Iron Corporation in compensation for its net assets. Such shares are held by Eastern & Chartered Trust Company for the Company's account. For information concerning the present status of this transaction refer to the second paragraph of Note 7.

Shares of Jubilee Iron Corporation have been registered with the Ontario and Quebec Securities Commissions and have been listed and admitted for trading on the Canadian Stock Exchange, Montreal, Quebec. Trading was suspended by order of the Quebec Securities Commission on March 15, 1966 but was reinstated shortly thereafter. Approximate market on May 9, 1966 was $2.00 per share (Canadian Stock Exchange). Due to the fact that practically all of the Company's holdings of Jubilee shares are subject to an escrow agreement and cannot be freely traded and since its investment is reasonably substantial in relation to the total issued and outstanding shares, apparent market value may or may not reflect realizable value which may be more or less.

In addition to the foregoing investment in shares, Jubilee Iron was indebted to the Company in the amount of $563,490 as at December 31, 1965 representing net advances for and on behalf of Jubilee together with charges for engineering and administrative services and use of aircraft. The collectibility of this account will depend upon the manner of its liquidation and the success of future operations of Jubilee Iron both financially and in the development of its properties.

It has been the Company's policy to credit the proceeds from disposals of shares of Jubilee Iron Corporation against the original cost of the investment. The pursuance of this policy to December 31, 1965, would result in a net credit balance in the consolidated account representing the investment in Jubilee Iron. In the circumstances, the consolidated investment in Jubilee Iron shares has been revalued at cost (approximately $1.66 per share) in the accompanying statements and the resulting profit on disposals has been credited to Deficit Account.

An agreement dated October 31, 1963, between Canadian Javelin, Jubilee Iron and Jack Waite Mining Company concerning transfer of the latter Company's El Transito and Montecristo properties to Jubilee Iron for shares of that company and other consideration was cancelled by an agreement dated May 31, 1965.

(10) Investment in Jack Waite Mining Company:

As of December 31, 1965, Simone Iron Corporation (a wholly-owned subsidiary of the Company) owned 859,500 shares or a 16.4% interest in Jack Waite Mining. All of the foregoing shares are held by Eastern & Chartered Trust Company and may only be released with the written consent of the Toronto Stock Exchange.

Jack Waite Mining shares were suspended from trading on the Toronto Stock Exchange on February 16, 1965 for failure to provide new working capital to meet Exchange requirements for continued listing privileges. On February 16, 1966, the shares were delisted because Exchange capital requirements remained unmet. The shares are listed for trading on the Spokane Stock Exchange.

In addition to its investment in shares of Jack Waite Mining, the Company has made net advances for and on behalf of Jack Waite which, together with

IN CHILE the producing Cerro Carmen iron ore mine. A view of the ore blending section before the ore is discharged into a 7½ mile conveyor system.

charges for engineering and administration services and use of aircraft, resulted in an amount of $404,183. due the Company at December 31, 1965. Since there are no known arrangements for financing of this Company both the investment in shares and the balance in the inter-company account have been fully reserved against by a charge to Deficit Account. In the event that financing is arranged the reserve may be adjusted in accordance with the circumstances.

(11) Investment in limited partnerships — Chile:

The cost to Canadian Javelin of this investment was $2,116,714 and represents ownership of the following Chilean organizations:

Compania Minera El Inca Limitada
Compania Minera Chango Limitada
Compania Minera Alacalufe Limitada
Compania Minera Diaguito Limitada

The first two partnerships have released their rights to exploit two iron ore properties to Compania Minera Santa Fé which pays them royalties on production. The second two partnerships are inactive.

The investment in these organizations was written down to a nominal value of $1. by a charge to (Deficit) Account in previous years and no further adjustment has been made to date. Their acquisition was a cause of action in litigation. The settlement of such litigation is set forth in Note 17 hereto.

Operating results in Escudos as set forth in certified financial statements for the year ended December 31, 1965, were as follows:

	El Inca	Chango	Total
Gross Royalties	411,120 E	161,754 E	572,874 E
Expenses	(82,367)	(46,435)	(128,802)
Income Taxes	(281,041)	(103,156)	(384,197)
Net Income	47,712 E	12,163 E	59,875 E

At an exchange rate of 4.20 Escudos, the above total net income is equivalent to approximately $14,256 U.S.

In 1965, the Company received $43,958 U.S. from the Chilean partnerships which has been applied against accumulated unrecovered expenses in the accompanying statements. It is the present policy to only bring such receipts into the consolidated accounts. Total receipts to December 31, 1965, amounted to $261,608 U.S.

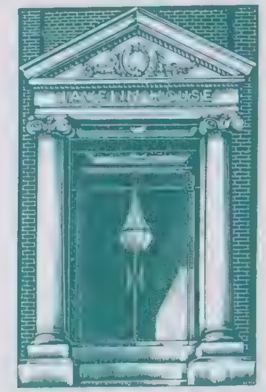
(12) Capital Stock:

(a) Issued in 1965 —

To the Government of Newfoundland in part payment for 57.8% interest in the Newfoundland and Labrador Corporation, Limited (Note 7) . . . . 80,000 shares

(b) Reserved at December 31, 1965 —

	Shares
For issue under the terms of a stock option plan to employees and directors of Canadian Javelin Limited, subsidiaries and affiliates (Note 15)	325,000
For private placement subject to approvals of regulatory authorities concerned	400,000
For issue to the vendors of 55.1% of the capital stock of Bison Petroleum & Minerals Limited (Note 14a)	248,842
For issue as consideration for the acquisition of mining claims (Note 14b)	7,500
	981,342



(13) Mining Claims, Concessions and Rights:

In addition to the Wabush Leases described in Note 3(a), the Julienne Lake lease described in Note 6 and exploration rights granted by NALCO in the North and South Concession Areas of Labrador, the Company held the following claims in good standing as at December 31, 1965 —

Areas	No. of Claims	Approx. Acreage	Acquisition Cost
(a) Senneterre — Quebec	29	2,356	$ 93,695
(b) Timmins — Ontario	356	14,240	194,148
(c) Joe Lake — Ontario	104	4,160	6,004
(d) Gaspé — Quebec	211	8,440	75,000
	700	29,196	$368,847

Costs of acquisition, together with field costs of claims abandoned during the year, have been written off to Deficit Account. Apart from the foregoing claims, costs of acquisition and development of all other mining properties of the Company are included in accumulated unrecovered expenses.

By an agreement executed as of April 1, 1965, the Government of Newfoundland granted to the Company exclusive prospecting and exploration rights in and over an area of some 1,367 square miles in the Deadman's Bay, Great Burnt Lake and Badger areas of Newfoundland. The agreement provides that all minerals in this area not subject to pre-existing rights are withdrawn from the operation of the Crown Lands (Mines and Quarries) Act 1961 for a period of four years from April 1, 1965. The Company has agreed to spend not less than $25,000 per annum over a four year period in prospecting and exploration of the area. The agreement further provides, upon application by the Company, for issuance of development licenses for a five year term at an annual rate of fifty cents per acre and for issuance of mining leases pursuant to terms of the Crown Lands (Mines and Quarries) Act 1961.

By an agreement executed on September 13, 1965, and effective from July 12, 1965, the Company granted to Jubilee Iron Corporation the right to acquire an undivided 50% interest in and to all or any of the properties comprising the aforementioned Groups (a), (b) and (c) and an undivided 50% interest in mineral and exploration rights with respect to an area comprising approximately 218 square miles in the Bonavista Bay Area of Newfoundland (a part of the area to which exclusive prospecting and exploration rights were granted to the Company by the Government of Newfoundland in the aforementioned agreement of April 1, 1965), provided Jubilee Iron Corporation, on or before July 31, 1966, expends on such properties in useful exploratory and development work an amount equal to the sum of the acquisition cost and the cost of exploratory work performed on such properties by Javelin. The agreement sets forth the aforementioned costs by sub groups of claims aggregating $639,333. Jubilee may exercise its option on any sub group and may apply any excess expenditure on one sub group against any other or others.

(14) Contingent Liabilities and Commitments:

(a) On or about April 30, 1966, the Company acquired 1,075,000 shares of Bison Petroleum & Minerals Limited or 55.1% of the 1,948,370 issued and outstanding shares. Payment was made through the issue of 248,842 shares of the Company's capital stock at $10. U.S. per share. As of December 31, 1965 preliminary expenses in connection with this acquisition are set forth as part of the investment cost.

(b) On or about March 23, 1966, the Company issued 7,500 shares of its capital stock in full consideration in exchange for the acquisition of 211 mining claims in Bonnecamp Township, Quebec. Such shares

A VIEW OF THE ORE SEPARATION section in the Wabush plant.

were issued at $10. Canadian per share. These mining claims were acquired in 1965.

(c) Under date of January 28, 1966, the Company issued an order of payment to Wabush Mines to authorize the payment of $221,034 U.S. against legal fees from royalties otherwise payable to the Company. Payments are to be made as follows:

1966	$ 85,000
1967	92,000
1968	44,034
	$ 221,034

For further commitments of $470,000 U.S. against future royalties see Note 17.

(d) The Company was in default of payment of royalties due to Knoll Lake Minerals Limited on March 31, 1966 in the amount of $644,098. As a result, the instalment payment of royalties due to the Company from Wabush Mines on April 25, 1966, in the gross amount of $450,000 has not been received by the Company. By agreement, Wabush Mines has deducted and remitted monies due under orders of payment $80,741 ($75,000 U.S.) and has applied the balance of $369,259 against the liability to Knoll Lake Minerals Limited. The remaining liability of $274,839 will be deducted from the royalty payment due on July 25, 1966. At a Board meeting held on April 29, 1966, Knoll Lake Minerals Limited declared and paid a dividend of 20 cents per share. The dividend paid to Canadian Javelin amounted to $85,157. It is anticipated that a further dividend will be paid by Knoll Lake Minerals on or about July 31, 1966.

(e) On or about July 22, 1965, the Department of National Revenue of Canada served a demand on the Company requiring it to pay to the Receiver General of Canada any monies due or becoming due to Mr. John C. Doyle. The accompanying financial statements include a provision of approximately $43,000 to cover possible liabilities arising in this connection to December 31, 1965.

(f) See Note 13 hereto for commitments to spend not less than $25,000. per annum over a four year period in prospecting and exploration of certain areas in Newfoundland.

(g) Pursuant to a stock option granted to Mr. Doyle on April 3, 1964 (Note 15), he entered into an employment contract with Javelin Export Limited, Nassau, The Bahamas, (a wholly-owned subsidiary of Canadian Javelin Limited), wherein Mr. Doyle undertook to make his services available to Javelin Export Limited and to its parent and affiliates for a period expiring April 3, 1967, at the rate of $100,000 U.S. per annum, payable on or before April 3, 1967. Following Mr. Doyle's resignation as President, Chairman of the Board and Chairman of the Executive Committee of the Company the aforementioned agreement was cancelled by an agreement dated July 19, 1965 between Javelin Export Limited and Mr. Doyle and ratified by the Company. The new agreement retains the services of Mr. Doyle as a consultant for the balance of the period of the original agreement at a compensation of $50,000 U.S. per annum and continues his stock option. The agreement is only terminable by Javelin Export Limited for cause or in the event of the incapacity of the employee as defined in the agreement.

(h) In order to comply with U.S. Federal Communications Commission regulations regarding alien ownership of aircraft, the Company's aircraft was sold on June 17, 1965, to a company which qualifies under the foregoing regulations. The sale price was $175,000 secured by a chattel mortgage and the aircraft has been leased back to

Canadian Javelin at an annual rental of $30,000., Javelin to pay all expenses.

(i) The Company's records have been reviewed by federal taxation authorities up to and including 1963. Final determination of all matters arising therefrom has not yet been made. Taxation considerations with respect to the years 1964 and 1965 are subject to review and determination by the authorities concerned.

(15) Stock Option plan for employees and directors of Canadian Javelin Limited, subsidiaries and affiliates:

On May 13, 1964, a stock option plan for officers, directors and key personnel of the Company, subsidiaries and affiliates was approved followed by approval at a general meeting of shareholders on July 15, 1964, and acceptance of a listing application by the American Stock Exchange on January 26, 1965. The total number of unissued shares subject to option was 325,000.

The options are exercisable at any time during a period of three years from the granting date. In no event may any option be exercised unless the exercisor thereof shall have had at least six months of continuous service to the Company as director, officer or employee.

Optionees, who may at the time of the exercise of their options be United States citizens, may exercise their options in whole or in part at a price of $11.00 (U.S.) per share, representing the average market value of the shares on April 3, 1964, when the options were voted and allocated.

Optionees, who may at the time of the exercise of their options be citizens of Canada, may exercise their options in whole or in part at a price of $9.25 (U.S.) representing the average effective price of the last two underwritings by the Company.

An option to Mr. John C. Doyle on 191,000 shares shall, notwithstanding the foregoing, be exercisable in whole, or in part, at the price of $12.00 per share (U.S.). The option to Mr. Doyle was conditional upon his execution of a three year employment agreement (Note 14(g)).

All payments to the Company on account of the exercise of options shall be made in the Canadian equivalent of U.S. dollars as computed in terms of the relative value of U.S. and Canadian currencies as of April 3, 1964.

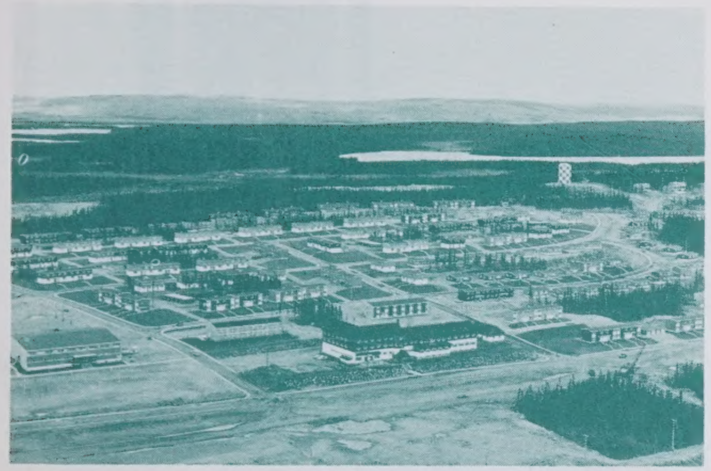
Options have been granted on 293,500 shares none of which have yet been exercised.

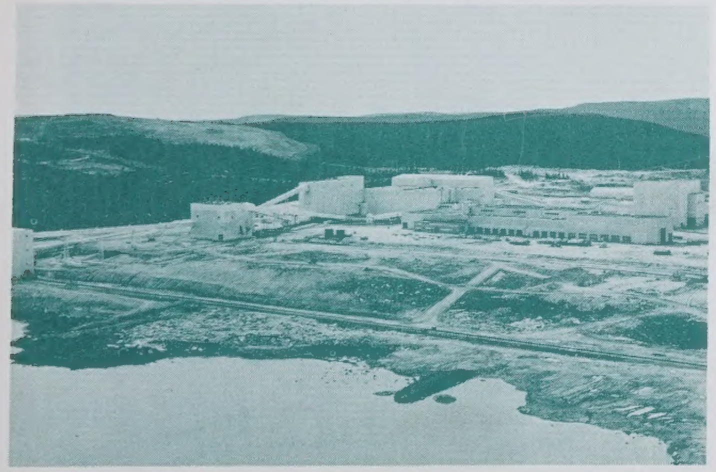
(16) Litigation affecting Canadian Javelin Limited:

(a) On August 7, 1963, a United States grand jury indictment charging violations of Section 5 and Section 17 of the Securities Act of 1933 against Mr. John C. Doyle, formerly President of the Company, and three others, was made public in the United States District Court in New Haven, Connecticut. The indictment applies to acts which occurred prior to July 1, 1958. Charges against the three other defendants were dropped on or about July 27, 1964. On February 4, 1965, Mr. Doyle pleaded guilty to one count of unlawfully sending unregistered stock of Canadian Javelin Limited through the mails for sale or delivery after sale.

On May 3, 1965, Mr. Doyle was sentenced in the United States District Court in New Haven, Connecticut. Appeal of the sentence was denied by the Same Court on or about May 18, 1965. On May 20, 1965, the United States Court of Appeals granted Mr. Doyle bail pending an appeal to be heard after the filing of briefs set for June 9, 1965.

The judgment against Mr. Doyle was affirmed by the Court of Appeals for the Second Circuit on June 28, 1965, and applications for bail pending determination of a petition for certiorari were denied.





WABUSH PLANT complex and townsite. A modern town and plant in the heart of Labrador, Newfoundland.

On July 15, Mr. Doyle was to have reported to begin serving sentence. He did not appear on that date.

A petition for certiorari in Mr. Doyle's case, filed before the Supreme Court of the United States, was denied.

On July 19, 1965, Mr. Doyle resigned as President, Chairman of the Board of Directors and Chairman of the Executive Committee of the Company.

Mr. James F. McNamara was elected President and Chairman of the Board of the Company and Joseph M. McDaniel Jr., was elected Chairman of the Executive Committee.

The Company was not indicted and was not otherwise affected by the foregoing litigation.

(b) By virtue of a writ of extent issuing out of the Exchequer Court of Canada, a seizure has been made of all the shares of Canadian Javelin Limited and Jubilee Iron Corporation owned by Mr. John C. Doyle, the former President of Canadian Javelin Limited. Neither of the companies was otherwise affected.

(c) Assessments were made against the Company by the Department of National Revenue of Canada for failure to deduct 15% non-resident tax on dividends deemed to have been paid to Mr. John C. Doyle, formerly President of the Company, in the years 1955 and 1957. In connection with the foregoing, proceedings were taken by the Department for seizure of all monies owing to the Company or to become owing to the Company by Wabush Mines. The assessments were appealed to the Income Tax Appeal Board, and the proceedings were being contested in The Exchequer Court of Canada. On April 23, 1965, pursuant to an agreement between the Company and the Department wherein the Company agreed to pay, and did pay the sum of $300,000 to the Receiver General of Canada, the aforementioned assessments were withdrawn and the Exchequer Court of Canada issued a discharge of seizure releasing monies owing to the Company by Wabush Mines. The amount of $300,000 was set forth as a liability of the Company as at December 31, 1964, and pending determination of its recoverability was charged to Deficit Account.

At a meeting of the Board of Directors held on May 7, 1965, the aforesaid settlement with the Department of National Revenue of Canada was approved and in reliance upon opinions of Canadian counsel, the amount of the settlement was accepted as a non-recoverable expense of the Company. In view of the foregoing, the cost of the settlement has been transferred from (Deficit) Account and added to other accumulated administrative expenses all of which will be amortized against future income on the basis set forth in Note 2(d). Similar assessments for the years 1956 to 1959 inclusive of approximately $46,000 have been authorized to be treated in the same manner by the Board of Directors.

(17) Settlement of litigation affecting Canadian Javelin Limited in the Supreme Court of the State of New York, County of New York:

Protracted litigation before the Supreme Court of the State of New York, County of New York, and in the United States District Court for the Southern District of New York, by stockholders, a director and the Company against John C. Doyle, formerly President of Canadian Javelin Limited, and others culminated, except for allowance of counsel fees in Court approval of an agreement of settlement effective May 7, 1963.

Matters involving the Agreement of Settlement and ancillary matters thereto which remained outstanding as at December 31, 1965, were as follows:

(1) Under the agreement of settlement, Mr. Doyle agreed to pay to the Company the sum of $3,350,000, in three instalments of $750,000, the first of which was due and payable on the 180th day after May 7, 1963, the next two pay-

ments to be made at successive twelve month intervals following the date when the first payment became due and payable. The final payment of $1,100,000 is to be made twelve months after the last of the preceding payments. Such indebtedness of Mr. Doyle to the Company was evidenced by promissory notes, without interest, in the face amount of $3,350,000. Settlement of the first instalment of $750,000 was made by Mr. Doyle. The second and third instalments of $750,000 each were in default of payment as of April 30, 1966. The agreement provides that upon default in payment of any instalment, after 60 days written notice of default unless the default is cured within said 60 days, the entire principal sum shall become due and payable and shall bear interest at 6% per annum, and the shares deposited as collateral security may be sold. The Company has not given written notice of default so that interest has not been accrued in the accounts of the Company nor in the accompanying financial statements. Mr. Doyle has made an offer of settlement. The settlement proposal has been accepted by the Board of Directors subject to obtaining certain appraisals and evaluations of the capital stock of Hoteles Interamericanos, S.A. and to the securing of stockholders' approval of the settlement proposal. These matters are in process and are expected to be the subject of a special meeting of the stockholders when completed.

(2) Under the agreement of settlement Mr. Doyle was to deposit with an Escrow Agent, to be designated by the Company, 400,000 shares of Capital Stock of the Company as collateral security for the payment of the said promissory notes. Because of the writ described in Note 16(b), Mr. Doyle was unable to deposit such shares. The Court has given approval for substitution as collateral security 38,802 shares of Hoteles Interamericanos S.A. representing 53.7% of the outstanding capital stock of that company. Hoteles Interamericanos S.A. owns the El Panama Hilton Hotel in Panama, R.P. The aforementioned shares, endorsed for transfer are in the custody of two members of the Board of Directors and a former member of the Board as escrowees.

(3) Fees payable by the Company in connection with this litigation were as follows:

To the Referee appointed by the Court	$ 125,000
To Counsel and accountants for the plaintiffs	832,500
To Counsel for the Company and its directors	735,000
	$1,692,500

Such fees have been charged to Deficit Account in offset against the gross settlement amount of $3,350,000. The fee payable to the Referee has been paid in full. Fees payable to counsel and accountants for the plaintiffs are payable by the Company or in the event of non-payment by the Company are payable directly from royalty payments otherwise payable to the Company. As of December 31, 1965, $470,000 of such fees remained payable of which $250,000 is due in 1966 and $220,000 in 1967.

(4) An offer of settlement from Mr. Robert Sherwood in this litigation in the amount of $120,000 cash was recommended for approval to the Court by the Referee and was approved by the Board of Directors on April 21, 1966 subject to a fee to counsel for the plaintiffs of $25,000. Pending Court approval this settlement has not been recorded in the Company's accounts and is not reflected in the accompanying financial statements.

(18) Remuneration of Officers and Directors:

Mr. John C. Doyle was credited with an aggregate of $78,205 covering salary, consultant's fees and director's fees in 1965.

Officers and Directors as a group were credited with an aggregate of $137,155 covering salaries, consultant's fees and directors' fees in 1965.

Road from Goose Bay financing

250,000
250,000
1,100,000
2,600 00

Printed In Canada

Canadian Javelin Limited

Incorporated under Federal Charter in June 1951

Head Office

Javelin House, St. John's,
Newfoundland

Engineering Office

100 Bronson Avenue
Ottawa, Ontario

Latin American Office

Santiago, Chile

Export & Sales Office

Nassau, Bahamas

Field Office

Wabush, Labrador

Properties

LABRADOR AND NEWFOUNDLAND
45,575 square miles of
mineral and timber concessions

TIMMINS AREA, ONTARIO

SENNETERRE AREA, QUEBEC

JOE LAKE AREA, ONTARIO

GASPE AREA, QUEBEC

PROVINCE OF ATACAMA, CHILE